

Message Text

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ACTION ARA-17

INFO OCT-01 ADP-00 SSO-00 NSCE-00 PM-09 NSC-10 SS-15

RSC-01 L-03 DODE-00 INRE-00 EB-11 OMB-01 TRSE-00

AID-20 CIAE-00 INR-10 NSAE-00 RSR-01 /099 W

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O 112317 Z APR 73

FM AMEMBASSY SANTIAGO

TO SECSTATE WASHDC IMMEDIATE 4000

S E C R E T SANTIAGO 1570

E. O. 11652: GDS

TAGS: CI, MASS, PFOR

SUBJECT: FMS RESCHEDULING

REF: (A) 1447 (B) STATE 65214

1. I RECEIVED TODAY A NOTE FROM CENTRAL BANK PRESIDENT INOSTROZA ENCLOSING THE MORANDUM HE TOLD ME HE WOULD SEND ME (REF A) ON HIS CONVERSATIONS WITH THE DEPARTMENT OF DEFENSE MARCH 28 AND 29. THE MEMORANDUM IS DATED APRIL 5, WHILE THE NOTE CARRIES TODAY' S DATE. FOLLOWING IS INFORMAL TRANSLATION OF THE MEMORANDUM:

2. BEGIN QUOTE ON MARCH 28 AND 29 DELEGATION OF CHILEAN OFFICIALS HEADED BY PRESIDENT OF CENTRAL BANK ALFONSO INOSTROZA HELD TALKS WITH AUTHORITIES OF DEPARTMENT OF DEFENSE OF USG IN CHARGE OF RELATIONS WITH CHILE. TALKS TOOK PLACE IN OFFICE OF MR. VALLIOTET, WHO CHAIRED THEM.

3. QUOTE IN DISCUSSION HELD MARCH 28 CHILEAN DELEGATION STATED:

(A) THAT CHILEAN TECHNICAL DELEGATION WAS REVIEWING WITH OFFICIALS OF (MR. VALLIOTET' S) OFFICE FIGURES ON CHILEAN MILITARY DEBT TO US THAT ENTERED RESCHEDULING AGREEMENT, BASES OF WHICH HAD BEEN AGREED WITH AMBASSADOR LETELIER.

(B) THAT THEY WERE INTERESTED IN DISCUSSING PAYMENTS OF THESE DEBTS DUE IN 1973 AND 1974 IN AS MUCH AS IN ACCORDANCE WITH PARIS CLUB AGREEMENT OF JANUARY 1973 CHILE WAS NOT MAKING PAYMENTS DURING THESE
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PERIODS. CHILEAN DELEGATION STATED THAT CHILE HAD REQUESTED OF PARIS CLUB CONSOLIDATION OF DEBT SERVICING FOR 1973 AND 1974 BUT

GIVEN SPECIAL SITUATION OF DEBTS TO DEPARTMENT OF DEFENSE, CHILE WAS WILLING TO MAKE A SPECIAL RESCHEDULING ARRANGEMENT FOR PAYMENTS DUE DURING THOSE TWO YEARS, BY WHICH THE SITUATION CONCERNING PAYMENTS OF THESE OBLIGATIONS FOR 1972 AND 1973 (SIC) WOULD BE SETTLED.

4. QUOTE. CONCERNING THIS PRESENTATION DEPARTMENT OF DEFENSE OFFICIALS ARGUED THAT IN ACCORDANCE WITH NORMAL PROCEDURES THEY WERE NOT RESCHEDULING THESE CREDITS AND THAT ARRANGEMENTS FOR 1972 WAS A VERY SPECIAL EXCEPTION: THAT IT HAD ALWAYS BEEN UNDERSTOOD THAT CHILEAN EMBASSY HAD APPROVED THE BASES OF THE AGREEMENT FOR RESCHEDULING 1972 PAYMENTS (ON WHICH THEY HAD A LETTER) AND THAT ONE THE LESS, THE STATEMENT OF THE CHILEAN DELEGATION NOW AMOUNTED TO A NEW PROPOSITION.

5. QUOTE. PRESIDENT OF CENTRAL BANK EXPLAINED THAT IN EFFECT WHAT HAD BEEN APPROVED WERE BASES OF RESCHEDULING OF 1972 PAYMENTS, GOC WAS INTERESTED IN CONCLUDING THIS AGREEMENT, AND REVIEW OF FIGURES THAT WAS BEING MADE BY CHILEAN OFFICIALS WAS TO ACHIEVE THIS END. BUT 1973 PAYMENTS WERE IN SPECIAL SITUATION OWING TO SUSPENSION OF THESE PAYMENTS IN ACCORDANCE WITH JANUARY PARIS CLUB AGREEMENT. THEREFORE, HE WAS REQUESTING THAT FORM IN WHICH THESE PAYMENTS WOULD ALSO BE STUDIED.

6. BESIDES, HE POINTED OUT THAT SITUATION OF 1973 AND 1974 PAYMENTS WAS DISCUSSED IN CONVERSATIONS WHICH TOOK PLACE IN MID-1972 WITH EMBASSY ON RESCHEDULING OF 1972 PAYMENTS.

7. QUOTE CONCERNING THIS ARGUMENT, DEPARTMENT OF DEFENSE AUTHORITIES REQUESTED CHILEAN DELEGATION TO MAKE PROPOSAL FOR RESCHEDULING THESE PAYMENTS. INOSTROZA PROPOSED THE FOLLOWING:

- (A) RESCHEDULE SERVICING FOR 1973-74.
- (B) MAKE NORMAL PAYMENTS OF INTEREST PORTION OF THIS SERVICING
- (C) PAY 5 0/0 OF PRINCIPAL PORTION OF SERVICING AND RESCHEDULE BALANCE IN MANNER SIMILAR TO THAT APPLIED TO SERVICING IN 1972.

HE ALSO EXPLAINED THAT WITH REGARD TO THIS FORMULA:

- (A) CHILE REQUEST TO PARIS CLUB WAS TO PAY 5 0/0 OF CAPITAL
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AND INTEREST, SO THAT PROPOSED FORMULA WAS GREATER THAN THAT PRESENTED TO CLUB AND

- (B) THIS AGREEMENT SHOULD BE KEPT CONFIDENTIAL.

8. QUOTE WITH REGARD TO THIS PROPOSAL DEPARTMENT OF DEFENSE AUTHORITIES STATED THAT PERCENTAGE OF AMORTIZATION WAS LOW, TO WHICH REBUTTAL WAS MADE THAT PAYMENT OF INTEREST PLUS 5 0/0 OF PRINCIPAL RESULTED IN TOTAL PAYMENT OF 20-21 0/0, WHICH WAS MUCH MORE THAN PROPOSAL MADE TO PARIS CLUB. DEPARTMENT OF DEFENSE

AUTHORITIES REACTED TO THIS ARGUMENT BY SAYING THAT THEY SAW THE FOLLOWING ALTERNATIVE:

(A) MAKE NORMAL PAYMENTS OF 1973 INTEREST AND STUDY RESCHEDULING OF PRINCIPAL AFTER PARIS CLUB HAS AGREED ON DEBT CONSOLIDATION FORMULA TO BE APPLIED TO ENTIRE CHILEAN DEBT.

(B) FIX A HIGHER PERCENTAGE FOR PAYMENT OF PRINCIPAL IN ADDITION TO PAYMENT OF INTEREST.

THEY ADDED THAT THEY WOULD CONSULT AND REPLY PROMPTLY WITH REGARD TO PROPOSAL OF CHILEAN DELEGATION AND FOREGOING ALTERNATIVES.

9. QUOTE THURSDAY, APRIL 29, DEPARTMENT OF DEFENSE AUTHORITIES REPLIED TO PRESIDENT OF CENTRAL BANK AS FOLLOWS:

(A) THAT PROPOSAL MADE PRECEDING DAY TO RESCHEDULE SERVICING FOR 1973 AND 74 WAS DESTROYING NEGOTIATION ALREADY ACHIEVED FOR 1972.

(B) THAT ALL POSSIBILITY OF RESCHEDULING SERVICING FOR 1973 AND 74 WAS REJECTED AND ALSO THAT, BECAUSE LINK WITH RESCHEDULING FOR 1973 AND 74 WAS NOT ACCEPTABLE, AGREEMENT ON SERVICING OF 1972 PAYMENTS REMAINED IN SUSPENSION.

10. QUOTE CONCERNING THIS REACTION, CHILEAN DELEGATION STATED:

(A) THAT IT DID NOT UNDERSTAND THE LINK THAT DOD AUTHORITIES WERE MAKING BETWEEN AGREEMENT ON 1972 SERVICING AND PRECEDING DAYS PROPOSALS FOR SERVICING 1973 AND 74.

(B) THAT IT HAD ALWAYS BEEN UNDERSTOOD THAT AGREEMENT FOR 1972 WAS BEING MAINTAINED AND WOULD BE COMPLIED WITH WHEN SIGNED, SINCE IT AROSE FROM COMMITMENTS UNDERTAKEN IN PARIS. FOR PURPOSE OF PERFECTING THIS AGREEMENT, CHILEAN OFFICIALS WERE REVIEWING FIGURES.

(C) THAT SIGNATURE OF THIS AGREEMENT WAS NOT SUBJECT TO RESCHEDULING OF 1973 AND 74 PAYMENTS AND THAT PROPOSALS OF CHILEAN SECRET

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DELEGATION WITH REGARD TO THESE LATER PAYMENTS AROSE FROM INTEREST IN CLARIFYING THEIR SITUATION.

11. QUOTE DETAILED RESULTS ARE GIVEN IN ANNEXED DOCUMENT OF REVIEW OF FIGURES MADE BY CHILEAN AND DEPARTMENT OF DEFENSE OFFICIALS. END QUOTE.

12. ENCLOSURE TO MEMORANDUM READS AS FOLLOWS (INFORMAL TRANSLATION, UNESSENTIAL WORDS OMITTED):
BEGIN QUOTE BASES OF 1972 AGREEMENT WITH DOD

QUOTE 1. FIVE CONTRACTS DETAILED IN ANNEX 1 ARE INCLUDED IN AGREEMENT, AND 70 PERCENT OF PRINCIPAL AND INTEREST OF PAYMENTS DUE UNDER THEM IN 1972 ARE CONSOLIDATED.

QUOTE 2. 30 PERCENT OF PRINCIPAL AND INTEREST WILL BE PAID IN 1972.

BALANCE IS RESCHEDULED BEGINNING IN 1975. (SEE ANNEXES 1 AND 3).

QUOTE 3. PAYMENTS MADE IN 1972 FOR INSTALLMENTS DUE THAT YEAR ARE RECOGNIZED AS ADVANCES UP TO 30 PERCENT.

QUOTE 4. FOR PURPOSES OF RESCHEDULING, AMORTIZATION PERIODS OF ALL CONTRACTS IN ANNEX 1 ARE EXTENDED TO TEN YEARS COUNTING FROM DATE OF FIRST DISBURSEMENT AS DETAILED IN ANNEX 2.

QUOTE 5. REPAYMENT OF 70 PERCENT IS MADE FROM 1975 UNTIL END OF NEW TEN YEAR TERM AS CALCULATED IN POINT 4 ABOVE.

QUOTE 6. RESCHEDULING IS APPLIED TO EACH CONTRACT AND CONSISTS IN TAKING BALANCE OF PRINCIPAL OF EACH CONTRACT AS OF DECEMBER 31, 1971, ADDING INSTALLMENTS DUE 1973 AND 1974 WHICH ARE NOT CHANGED (EXCEPT AS INDICATED BELOW) AND DISTRIBUTING RESULTS OVER YEARS BEGINNING 1975 (INCLUDING THAT YEAR) UNTIL END OF NEW TERM AS INDICATED IN POINT 4 ABOVE (SEE ANNEX 4).

QUOTE 7. VALUE OF 1973 PRINCIPAL IS CORRECTED BY APPLYING SUMS PAID IN ADVANCE AS INDICATED IN ANNEXES 3 AND 4.

QUOTE 8. CONTRACTURAL RATE OF INTEREST IS MAINTAINED, AS INDICATED IN ANNEX 4.

QUOTE 9. APPLICATION AND LIQUIDATION OF 30 PERCENT AND OF PREPAYMENTS
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IS MADE IN ACCORDANCE WITH ANNEX 3.

QUOTE 10. NEW PLAN OF PAYMENTS IS THAT INDICATED IN ANNEX 4.

QUOTE 11. PREPAYMENTS OF PRINCIPAL MADE UP TO DECEMBER 31, 1971 ARE ASSUMED TO BE THOSE DETAILED IN ANNEX 5. END QUOTE.

13. ENCLOSURES WHICH FOLLOW FOREGOING ARE TABLES ON DETAILS OF REPAYMENT SCHEDULES COPIES OF WHICH WE PRESUME DEPARTMENT OF DEFENSE HAS.

14. AS DEPT WILL RECALL FROM REFTTEL (A), INOSTROZA'S SUGGESTION WAS THAT I READ THE MEMO HE HAS NOW PROVIDED AND THAT WE THEN MEET. I WOULD APPRECIATE INSTRUCTIONS IN LIGHT OF INTERVENING DEVELOPMENTS IN WASHINGTON (REF B).
DAVIS

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<< END OF DOCUMENT >>

Message Attributes

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Disposition Approved on Date:
Disposition Authority: hilburpw
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
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Disposition Reason:
Disposition Remarks:
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Drafter: n/a
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Executive Order: N/A
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